

# **AFFORDABLE HOUSING PRESERVATION and PRODUCTION PROGRAM**

## **Program Guidelines**

### **Background**

The Affordable Housing Preservation and Production Program (AHPP) is funded through the federal HOME Investment Partnerships Program (HOME).

HOME was created through the National Affordable Housing Act of 1990. Funds are made available through formula allocations to state and local governments (participating jurisdictions or PJs). A portion of the annual funding is reserved for Community Housing Development Organizations (CHDOs).

The HOME program requires compliance with a number of federal regulations and requirements. Applicants should be aware of those regulations applicable to their proposed project. DHCD can provide assistance upon request regarding these requirements prior to submission of the application.

### **Program Purpose**

The purpose of the AHPP program is to provide flexible, below-market-rate loans to projects for the creation or preservation of affordable housing for lower-income Virginians. AHPP funds are intended to be used with other types of financing including, but not limited to, low income housing tax credits, bond financing, and other public and private funds. ***AHPP funds are designed to fill the gap in permanent financing to make a project feasible for the creation and preservation of affordable housing for lower-income households.***

## **Available Funds**

For the fiscal year of 2004, funding is available as follows:

HOME        \$4.5 million

**NOTE:** A minimum of 15% of the state's HOME Grant, or \$2,037,030, must be restricted for use by state certified CHDO's. Applications for 2004 fiscal year will be accepted upon announcement of the program cycle on or about the 1st of September 2003. Applications will be accepted as long as funds are available.

**Only applications for projects ready to proceed will be reviewed. This will require all other funding to be in place and all local approvals necessary for the project to proceed completed at application submission.**

## **Maximum Loans**

AHPP funds are available to the extent that a gap exists in the permanent financing for an eligible project and that the funding requested has a positive impact on the affordability of the housing provided. DHCD and its underwriters reserve the right to recommend increases or decreases to funds requested based on cash flow, rents, other financing, etc. Generally, however, loans will be limited to \$500,000 per project or the maximum allowed based on maximum per unit subsidies found in the HOME section, whichever is the lesser. No single project or combination of projects submitted by the same owner/applicant or related entities may receive more than twenty percent (20%) of the available annual funding. HOME funded projects require a minimum HOME investment of \$1000 per unit.

## **Eligible Applicants/Activities**

The applicant must be the owner of the proposed project. For partnerships, the managing general partner may submit the application on behalf of the partnership. Any entity including private nonprofit and for profit organizations and public housing authorities may apply.

AHPP funds will generally be committed for permanent financing only. DHCD may consider providing HOME funds for construction/permanent loans under certain conditions.

Eligible activities include rehabilitation, adaptive reuse, and new construction. A minimum of \$7500 per unit in rehab or at least two of the five major systems replaced (i.e. plumbing, electrical). In addition, acquisition is eligible only when combined with one of the previously mentioned activities. Upon completion, all projects must, at a minimum, meet HUD Section 8 Housing Quality Standards and all applicable state and local codes. Work write-ups, plans, and specifications will be reviewed during underwriting and prior to commitment of funds.

**AHPP funds may not be used for luxury improvements defined as those improvements that exceed existing neighborhood standards. In addition funds may not be used solely for refinance or remediation of deferred maintenance.**

### **Eligible Projects**

The following project types are eligible for funding:

**Multifamily Housing** defined as 5 or more attached units developed and secured under one deed.

**Scattered Rental Housing** defined as properties containing four or more units with no structure having more than four attached units. Properties could be single-family detached, duplexes, etc. Homes may be on scattered site but should be in reasonable proximity (i.e. neighborhood). Congregate housing and single room occupancies are included in this category.

**Homeownership** (CHDO only) defined as units developed for sale to lower-income, first-time homebuyers. Short-term lease/purchase projects (lease period not more than 3 years) are considered homeownership projects.

### **Loan Terms**

All AHPP loans require a 1% commitment fee (minimum of \$3000) due upon acceptance of the commitment or at a later date mutually agreeable to the applicant and the Fund.

HOME loans are generally deferred for a period of not less than 15 years with interest payable monthly at 3%.

DHCD reserves the right to revise loan terms and amounts based on project financing needs and recommendations by underwriters.

### **Loan-to-Value**

All projects will require an appraisal prior to loan commitment. DHCD may approve the use of any appraisal used for other financing provided the appraisal is not more than six months old. If an acceptable appraisal is not available at the time of application, the owner/applicant will be required to pay for an appraisal ordered by the underwriter.

DHCD will not approve gap funding where the combined debt exceeds 100% of the value of the project based on the approved appraisal. To calculate the loan-to-value for the requested AHPP funding, add the amount of all superior liens to the requested AHPP funds. The total shall not exceed the appraised value of the project.

### **Occupancy Requirements**

All projects funded through AHPP have occupancy restrictions, both for tenants and first-time homebuyers. These restrictions remain in place for 15 years on existing properties and 20 years for new construction. For multifamily and other rental projects the following requirements will be enforced throughout the term of the loan:

All assisted units must be occupied by household below 60% AMI with 20% of the assisted units set aside for households below 50% AMI. NOTE: When low-income housing tax credits are used with HOME, the set-aside for 50% AMI increases to 40% of the assisted units.

For homeownership projects all units must be sold to households with incomes at or below 60% AMI.

Charts detailing the area median income for all jurisdictions in the Commonwealth are attached in *ATTACHMENT 1*.

### **Rent Requirements**

All units assisted through AHPP must be affordable to the tenants based on unit size and total household income of the tenants. **The maximum rent allowed for any AHPP assisted unit is the *Fair Market Rent* listed in the tables in *ATTACHMENT 2*.** The following exceptions apply:

At least 20% of the assisted HOME assisted units must have rents that do not exceed the *Low HOME Rent* listed in the table. The balance of the HOME assisted units will be restricted to a maximum rent not greater than the *High HOME Rent* as listed in the table.

**IMPORTANT:** All rents listed in the table are gross rents. If the tenant is responsible for paying any utilities, the cost of those utilities must be subtracted from the gross rents to determine eligible net rents.

**Although the AHPP program allows these maximum rents, it is the intent of the program to provide affordable housing to the targeted lower-income population. Projects should consider rents lower than the maximum as one way to show the impact of the requested funding.**

### **Development Fees**

The maximum developer's fee for AHPP funded projects shall be ten percent (10%) of the total development cost less acquisition, reserves, and developer's fee.

CHDOs may budget up to fifteen percent (15%) for a developer's fee based on total development cost less acquisition, reserves, and developer's fee. If the CHDO has received a CHDO Development Assistance Grant or Predevelopment Loan for the project, DHCD reserves the right to reduce the developer's fee requested and/or require repayment of previously received funds. DHCD may release

one-half of the approved developer's fee for CHDO projects after acceptance of the commitment.

### **Tenant Displacement**

Projects causing displacement of existing tenants are strongly discouraged. If displacement will occur, owner/applicant must include a relocation plan and budget the cost of carrying out this plan in the project budget. Relocation Guidelines are included in *ATTACHMENT 3*.

**All funded projects that cause displacement will be subject to federal relocation guidelines under the Uniform Relocation Act (URA).**

### **Underwriting and Servicing**

VHDA will review, underwrite, and make recommendations for all AHPP loan multi-family applications. DHCD, after review of VHDA recommendations, determines whether a commitment will be offered and any special conditions to be included in the commitment.

Any additional information requested to complete the review and underwriting of the AHPP loan application must be received within 60 days of said request or underwriting will be terminated. Once the processing of your application has been terminated the exhibits (plans, specifications, appraisals etc.) will only be returned if requested in writing by the applicant.

All loans are serviced by VHDA. Any prepayment request or request for assumption by another owner are subject to DHCD approval. However compliance with all restrictions must be maintained for the term of the original compliance period.

### **Reporting/Monitoring**

DHCD and VHDA will periodically monitor funded projects to insure that occupancy requirements and property standards are maintained. All funded projects will require monitoring for compliance with federal requirements. The owner must

provide access to all records requested by staff of DHCD and VHDA and provide access to the property as requested for inspection purposes.

The owner will be responsible for insuring that all records pertaining to tenant eligibility are maintained and updated. Owners must certify tenant income annually for all assisted units. At least every three years the owner must verify the tenant's income with third-party verification. Third-party verification is required for all new leases.

Audits will be required for projects having loan balances exceeding \$500,000. Annual financial reports will be required for all other projects. Tax returns may be submitted to meet the financial report requirement.

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## **CHDO Specific Section**

### **Eligibility**

Funds are available for projects owned and/or developed by qualified Community Housing Development Organizations that have received and retained certification by DHCD.

Project Ownership requires that the CHDO be the sole owner of the project or, in the case of a partnership, the managing general partner.

A CHDO acting as developer must have an executed developer's agreement with the ownership entity that provides for all decision-making during the development process to be controlled by the CHDO. The CHDO must also have all required licensing, certifications, and insurance necessary to carry out development activities.

Regardless of the role taken by the CHDO, the organization must have experienced staff to undertake the activity. Lack of experienced staff will require one or more agreements with consultants and a plan for training the CHDO staff.

Additional guidance regarding CHDO Requirements and Activities can be found in *ATTACHMENT 4*.

### **Use of HOME Funds**

CHDOs must own or develop an eligible project as described in the previous section. More specifically funds can be used for acquisition, hard and soft development costs, legal fees, relocation costs, etc. More detail can be found in *ATTACHMENT 5* entitled Rental Housing Activities. Similar costs are eligible for the development of housing for sale to first-time homebuyers with the exception of operating reserves. Projects proposing lease-purchase options for the homebuyers must certify and provide documentation that the lessees will be able to purchase within a 36-month period



after occupancy. If the initial lessee cannot exercise this option the CHDO has two options as follows:

1. Displacing the lessee and selling the home to another income-eligible household; or
2. Allowing the lessee to stay as a tenant. In this case the property becomes rental for the remainder of the affordability period and must comply with all requirements for HOME-assisted rental units.

### **HOME and CDBG Entitlement Jurisdictions**

**DHCD will consider applications from CHDOs certified by the state for projects in HOME and/or CDBG entitlement communities provided there is a local match equal to twenty-five percent (25%) of the funds requested under AHPP. Local match may include local HOME, CDBG, program income, local appropriated funds, and local government in-kind. Local match does not include private funds. A letter from the Chief Executive Officer of the public entity providing the match must be included in the application. A letter from the Chief Executive Officer or HOME Coordinator must also be included stating that the proposed project is consistent with the applicable Consolidated Plan.**

### **Subsidy Limitations**

**All HOME funded projects will receive a subsidy layering review during underwriting to insure that the subsidies received are appropriate. HOME funds are limited to the following per unit cost for multifamily properties (based on the current 221(d)(3) limits):**

Buildings without elevators:	Northern Virginia	Remainder of state
Efficiency Units	\$65,594	\$53,484
1 Bedroom Units	75,631	61,668
2 Bedroom Units	91,211	74,372
3 Bedroom Units	116,750	95,196
4 Bedroom Units	130,065	106,053

The following localities may use the NORTHERN VA numbers: counties of Arlington, Fairfax, Loudoun, and Prince William and cities of Alexandria, Fairfax, Falls Church, Manassas, and Manassas Park. These limits do not include the developer's fee.

### **Federal Requirements**

The use of HOME funds triggers the need to meet one or more of a number of federal requirements. The applicability of these requirements is generally based on activity and/or number of HOME-assisted units in the project. Staff from DHCD will work with each applicant prior to and after commitment to insure all necessary requirements are met. A summary of these requirements can be found in *ATTACHMENT 6*.

**NOTE:** Effective September 15, 2000 new lead-based paint hazard reduction requirements will be enforced. The applicability of the lead-based paint requirements is based on the specific activity undertaken on a pre-1978 structure. A summary of activities and required actions is included in *ATTACHMENT 7*. **DHCD will provide guidance on meeting the lead-based paint requirements. However, a lead inspection will be required as part of the environmental screening prior to commitment of any HOME funds.**

All applications requesting HOME funds must complete, at a minimum, the Environmental Checklist that may be found in *ATTACHMENT 8*. The checklist will be submitted with the application and include copies of all documentation supporting the checklist responses. **In addition to completing the Environmental Checklist, it would be advisable to complete an environmental screening prior to the application.** Costs associated with contracting for this activity are eligible under the AHPP Predevelopment Loan Fund.

### **CHDO Update**

The status and capacity of each CHDO applying for AHPP funds will be confirmed by DHCD prior to issuing a commitment of HOME funds. In addition, information will be requested in the application describing the CHDO's role with the proposed development.